

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 9/14/2018

GAIN Report Number: CH18059

China - Peoples Republic of

Tree Nuts Annual

Chinese Imports of U.S. Tree Nuts Likely to Decrease in Marketing Year 2018/2019

Approved By:

Michael Ward

Prepared By:

Abraham Inouye

Report Highlights:

At current price levels, China will likely import less U.S. almonds, pistachios, and walnuts due to the additional import tariffs placed on U.S. tree nuts; however, it is unclear if Chinese importers will be able to fill the gap by increasing purchases of alternative nuts (such as macadamia nuts, cashews, and Brazil nuts) from third countries. China's in-shell walnut production is forecast to decrease by 15 percent to 850,000 MT in MY 2018/19 as a heavy snowstorm in April will likely reduce production in northern producing provinces. Shelled almond production is forecast at 43,000 MT, unchanged from the previous year.

Production

Walnuts

China's in-shell walnut production is forecast at 850,000 metric tons (MT) in marketing year (MY) 2018/19 (September-August), a decrease of 15 percent from the previous year. Yunnan, the country's largest walnut producing province, is recovering from frost damage in MY 2017/18. A heavy snowstorm that struck northern China in early April caused widespread damage among the walnut crops in the major producing provinces of Shanxi, Shaanxi, Henan, Hebei, and Gansu. As a result, walnut production in these provinces is likely to fall by 30-80 percent from the previous year. The walnut sizes are generally large and fruit are quite full in snow-hit regions. Walnut production in Xinjiang Uygur Autonomous Region (Xinjiang), the second largest walnut producer in China and located much further to the West, is expected to remain unchanged from last year.

Walnut acreage is estimated at 300,000 hectares in MY 2018/19. Although the total crop area is still expanding in Xinjiang and Yunnan, the rate of expansion in those provinces has slowed down. Walnut production is scattered across more than 20 provinces and over 50 percent of walnut acreage is on hills and mountains, so the average yield is quite low at 2.3 MT per hectare. As the world's leading walnut producer, China's walnut production is expected to see continued moderate increases in the foreseeable future as new plantings begin to bear. Although numerous walnut varieties exist in China, very few compete with popular varieties such as Chandler, Serr, and Hartley which feature a light-colored kernel without a bitter taste.

Almonds

China's almond production (shelled basis) is forecast at 43,000 MT in MY 2018/19 (August-July), unchanged from the previous year, according to sources in Xinjiang Uygur Autonomous Region. Almond acreage is currently estimated at around 63,000 hectares and the production base is stable. More than 95 percent of the country's almond plantings are situated in Shache County of Xinjiang. Chinese almond production also suffers from low yields. Too many varieties are grown in Xinjiang and most orchards lack proper management and inputs. Industry sources indicate that it is difficult to source large quantities of almonds with uniform variety and quality. Almost all locally-produced almonds are consumed in Xinjiang with a very limited amount being exported to neighboring Central Asian countries.

Pistachios

China's pistachio production is estimated at 300 MT in MY 2018/19 (September-August) on a planted area of around 4,000 hectares. Pistachio yield is extremely low as most plantings are experimental and are not bearing. Private companies have been exploring suitable varieties and farming techniques for commercial production of pistachios in Xinjiang.

Other nuts

China's hazelnut production (in-shell basis) is forecast at 28,000 MT in 2018/19 (September-August), down more than 30 percent from the previous year, as a result of cold temperatures in northeast China during the 2017 winter. Local varieties (smaller sizes) account for around 65 percent of total production and hybrid varieties (similar to European varieties) account for the remaining share. Hazelnut acreage is estimated at 190,000 hectares and is expected to increase. The main production areas are located in northeast China and include Liaoning, Jilin, and Heilongjiang provinces. Other notable production areas include Shanxi, Shandong, Xinjiang, and Inner Mongolia provinces.

Macadamia nut production (in-shell basis) is forecast at nearly 20,000 MT in MY 2018/19 (September-August), doubled from the previous year due to increased bearings. The planting area of macadamia nuts is currently estimated at 160,000 hectares, mainly in Yunnan and Guangxi provinces, and continues to expand. Although the yield and quality of locally-produced nuts are relatively low due to poor management, the country's production of macadamia nuts is expected to increase rapidly in the next few years as new plantings begin to bear. It is estimated that China's production of macadamia nuts will reach 190,000 MT in 2022, around half of the world production, according to an International Nuts & Dried Fruit Council (INC) report.

Although China is reported to have planted nearly 46,000 hectares of pecans, mainly in Anhui, Yunnan, and Jiangsu provinces, the production is estimated to be extremely low at 150 MT in MY 2018/19 (September-August) due to poor management, according to local sources.

Prices

Farm gate prices for in-shell walnuts vary from location to location, especially in MY 2018/19. In Yunnan province where walnut production is expected to recover from a year ago, farm gate prices (in-shell basis) were quoted at RMB18 (\$2.65) per kilo at the beginning of MY 2018/19. This was nearly a 20 percent decrease from the same period last year, according to Yunnan traders. Meanwhile, in Shanxi province where walnut production is estimated to decrease by 70-80 percent from the previous year, farm gate prices (in-shell basis) were reported at RMB36 (\$5.3) per kilo at the beginning of this marketing year. This was an increase of more than 40 percent year-on-year, according to media reports.

Farm gate prices for best quality (thin shell) in-shell almonds are quoted at RMB35 (\$5.15) per kilo, up 16 percent from the previous year, according to Xinjiang sources. Lower quality almonds are sold at RMB25-32 (\$3.68-4.70) per kilo at farms. Hazelnut farm gate prices (in-shell basis) are placed at around RMB25 (\$3.68) per kilo, according to industry sources.

Consumption

China is the world's leading walnut consumer and accounted for roughly 45 percent of world consumption in 2016, according to an INC report. The INC report also estimated that China consumed 21 percent of the world's pine nuts and 8 percent of macadamia nuts. Most nuts consumed in China are imported, with the exception of walnuts. The price fluctuations of certain nuts, considered alongside the additional tariffs China is assessing U.S.-origin nuts, will likely lead Chinese importers to source nuts from alternative markets. However, consumption of nuts as a whole will continue to increase in the long run in China.

A national health policy called, the Dietary Guidelines for Chinese Residents is promoting the concept of consumption of nuts on a daily basis. In addition, the 2018 edition of Snack Guidance for Children and Teenagers recommends nuts as one of the best choices for snacks. Tree nuts have become an important component of the Chinese diet due to their perceived health and nutrition benefits. In fact, a group of Chinese food manufacturers recently launched a new product campaign using nuts packaged into small, consumer ready packages and marketing them as “daily nuts.” These new products have gained popularity among younger consumers, especially women. The rapid development of China’s food processing industry and newly emerged products has also helped boost nut consumption. The bakery and confectionary sectors are consuming increasing quantities of imported nuts. In addition, more middle class consumers are using nuts to prepare bakery and confectionary products at home. Lastly, E-commerce is playing an increasingly important role in marketing nut products to a wider pool of consumers.

Trade

Imports

Because China has enacted a number of additional tariffs on U.S. products, Chinese importers will be less likely to purchase certain tree nuts from the United States. The market share once occupied by the United States will be difficult to fill by other competitors due to limited substitutable suppliers. Further exacerbating the problem, China recently tightened control over imports transshipped through border programs. As a result, Chinese buyers are looking for other import sources and will probably increase purchases of alternative nuts, such as cashews and Brazil nuts.

In spite of increased world pistachio supplies as a result of a rebound in U.S. production, China’s pistachio imports (in-shell basis) are expected to decline during MY 2018/19 (September-August), largely because of fewer purchases from its largest supplier, the United States. Chinese importers are seeking substitute supplies from other producers such as Iran, the second largest pistachio supplier to China, but a sharp production decrease in Iran will likely limit it as an effective substitute exporter in 2018/19. Other producers, including Turkey and Syria, have no direct access to the China market. Pistachios were China’s number one imported tree nut in 2017, according to a report by INC.

Although China’s imports of almonds, shelled products in particular, have been on the rise over the past few years, import volume is projected to fall sharply during MY 2018/19 (August-July) due to the increased tariffs on U.S. nut products. Currently, more than 95 percent of China’s almond imports come from the United States. Although Australia also exports almonds to China, its exportable supplies are far from enough to satisfy the China market. China and Hong Kong together consumed around 7 percent of the world’s almonds in 2017, according to a U.S. industry report.

China’s walnut imports are expected to further decline in MY 2018/19 (September-August) from the previous year, partially because of increased tariffs on products from the United States, which in the past has been China’s single largest walnut supplier. Although Chinese importers are searching for substitute products from Chile and Australia, their available supplies can hardly fill the gap. On the other hand, China’s overall imports of walnuts, especially in-shell products, have been falling from its peak in 2012, mainly because of rapid increases in domestic production.

Exports

China's exports of walnuts are estimated to drop in MY 2018/19 as result of reduced domestic production. China has been a historical export supplier of walnuts over the last century. Over the past decade or so, China has nearly faded out as a supplier to the world market due to strong domestic demand. Nevertheless, China's walnut exports rebounded significantly in MY 2017/18 as a result of sharp increases in production. China exports mainly shelled walnuts to Europe, Japan, and Kyrgyzstan. Exports of in-shell walnuts also picked up dramatically last year to neighboring countries, including Pakistan and Kyrgyzstan.

China imports in-shell pistachios and almonds for processing and re-export (in-shell pistachios and shelled almonds) to the U.S. and EU markets, but the volume is limited and declining. Likewise, China imports in-shell macadamia nuts and re-exports kernels mainly to Australia and the volume remains quite stable.

Policy

The Chinese central government is enforcing a targeted nation-wide poverty-alleviation program which may benefit tree nut growers in less developed regions. For instance, in conjunction with the private sector, the county government of Yecheng in Xinjiang plans to invest a total of RMB100 million (\$14.7 million) in buying walnut cleaning, shelling, and grading machinery to help farmers improve walnut quality and increase employment. As one of the three major walnut-producing counties in China, Yecheng accounts for more than one-third of Xinjiang's walnut supplies.

On November 25, 2017, the State Council Duty Committee (SCDC) announced that import tariffs for 187 products, including Brazil nuts, cashew nuts, macadamia nuts, and pecans, would be temporarily lowered on December 1, 2017 (see GAIN report [CH17063](#)). However, the U.S. nut industry has been targeted in China's additional tariffs enacted in response to the U.S. 232 and 301 measures. Specifically, China's SCDC announced additional tariffs of 15 percent (see GAIN report [CH18017](#)) and 25 percent (see GAIN report [CH18034](#)) on U.S. products, including tree nuts with effective dates of April 2 and July 6, respectively. The following table provides detailed tariff rates for different tree nuts from the United States and other trading partners.

Following value-added tax (VAT) reductions on agricultural products from July 2017, the Chinese government again lowered the VAT, for primary agricultural products and processed products from 11 to 10 percent and 17 to 16 percent, respectively, effective May 1, 2018 (see GAIN report [CH18022](#)).

Tree Nut Import Tariff and Value-added Tax (VAT) in 2018

HS Code	Description	Tariff (%)				VAT (%) as of May 1
		MFN	USA as of July 6	Australia	Chile	
0801.2100	Brazil nuts, in shell	7*	47	2	0	10
0801.2200	Brazil nuts, shelled	7*	47	2	0	10
0801.3100	Cashew nuts, in-shell	7*	47	4	0	10
0801.3200	Cashew nuts, shelled	7*	47	2	0	10

0802.1100	Almonds, in-shell	10*	50	4.8	0	10
0802.1200	Almonds, shelled	10	50	2	0	10
0802.2100	Hazelnuts/Filberts, in-shell	25	65	5	0	10
0802.2200	Hazelnuts/Filberts, shelled	10	50	2	0	10
0802.3100	Walnuts, in-shell	25	65	5	0	10
0802.3200	Walnuts, shelled	20	60	4	0	10
0802.5100	Pistachios, in-shell	5*	45	2	0	10
0802.5200	Pistachios, shelled	5*	45	2	0	10
0802.6190	Macadamia nuts, in-shell	12*	52	4.8	0	10
0802.6200	Macadamia nuts, shelled	12*	52	4.8	0	10
0802.9090.40	Pecans, whether or not shelled	7*	47	4.8	0	10
2008.1910	Walnut kernels, in airtight containers	20	20	4	0	16
2008.1920	Other nuts, in airtight containers	13	13	2.6	0	16

Note: *Indicates a temporary rate for 2018

Marketing:

Consumption of nuts is a traditional part of Chinese culture and high-quality imported tree nuts have long enjoyed a strong customer base throughout the country. In recent years, demand for high-quality nuts has been especially robust, backed by rising disposable incomes and consumer preference for healthy and natural foods. Two of the largest tree nut associations in China, the Nuts and Roasted Seeds Division of the Chinese National Food Industry Association and the South China Tree Nut Association, have strongly contributed to this nation-wide robust demand through consumer education on the health benefits of nut consumption.

The United States is the largest supplier of tree nuts to the Chinese imported tree nut market. The top two most popular U.S. nuts in China are almonds and pistachios, both of which have experienced strong import growth over the past three years. Other popular imported tree nuts include macadamias, hazelnuts, pecans, and walnuts.

A significant amount of imported U.S. nuts are sold as bulk product to various Chinese roasting factories and wholesale markets that have developed their own brands. These Chinese nut brands that utilize imported product are sold in all types of retail outlets, ranging from “mom & pop” stores, franchised outlets, convenience stores, supermarkets, and hypermarkets. The types of packaging in these outlets range from bags and cans to large boxes. In addition to single variety packages, mixed nuts and seeds, and mixed nuts and dried fruits are also popular snack foods in the retail markets.

Founded in the early 1900s, Yidelu wholesale market in Guangzhou is a key imported nut marketing hub for the entire country. Retail outlets, other wholesale markets, hotel and restaurant chains, and the food manufacturing industry all source from Yidelu market. According to contacts at Yidelu, demand for high-quality imported nuts in traditional and high-end retail outlets continues to grow.

With tremendous development in the online retail sector, Chinese e-commerce is now an important marketing venue for imported tree nuts. Due to their long shelf life, convenient packaging, and long-distance shipping suitability, nuts perform especially well in this sector. All major online retailers in China offer a range of nut products and some Chinese processors have even developed nut brands exclusively for e-commerce, one of which reached a sales volume of over \$1 billion in 2017. Multiple U.S. tree nut brands are also increasingly available directly from online retail venues.

Retail contacts report in-store promotions and food festivals in 1st and 2nd tier city retail stores highlighting U.S.-origin nuts as safe, healthy, and convenient snack foods have been extremely successful in increasing sales. Consumer promotions timed with Chinese holidays are especially effective as nuts such as pistachios are in high demand as Mid-Autumn Festival and Chinese New Year gifts and snacks. Trade association contacts also report that public relation activities and media campaigns have also played important roles in educating consumers on the quality of U.S. tree nuts.

Imported tree nuts are also used in the Chinese baking industry. U.S. almonds, walnuts, pecans and pistachios are now commonly included as ingredients in bakery chain breads, cookies, cakes and pastries. In 2018, the Agricultural Trade Office (ATO) in Guangzhou launched a USA Pavilion at the Guangzhou Bakery Show, offering an ideal platform for multiple U.S. trade associations to showcase high quality tree nuts to the South China baking industry. Blue Diamond Growers, American Pistachios Growers, the U.S. Pecan Growers Council, and the California Walnut Committee all participated in this heavily attended event. ATO Guangzhou and other ATOs across China plan to implement similar events in 2019.